

Immigration's Impact on American Workers

Testimony Prepared for the House Judiciary Committee

August 29, 2006

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Introduction

Few government policies can have so profound impact on a nation as immigration. Large numbers of immigrants and their descendants cannot help but have a significant impact on the cultural, political, and economic situation in their new country. Over the last three decades, socio-economic conditions, especially in the developing world, in conjunction with U.S. immigration policy, have caused 25 million people to leave their homelands and emigrate legally to the United States. Additionally, the Immigration and Naturalization Service estimates that the illegal alien population grows by 400,000 to 500,000 each year.¹ The current influx has caused an enormous growth in the immigrant population, from 9.6 million in 1970 (4.8 percent of the population) to 36.2 million (12.1 percent of the population) today.

As in the past, immigration has sparked an intense debate over the costs and benefits of allowing in such a large number of people. One of the central aspects of the immigration debate is its impact on the American economy. While the number of immigrants is very large, as I will try to explain in this paper the impact on the overall economy is actually very small. And these effects are even smaller when one focuses only on illegal aliens, who comprise one-fourth to one-third of all immigrants. While the impact on the economy as a whole may be tiny, the effect on some Americans, particular workers at the bottom of labor market may be quite large. These workers are especially vulnerable to immigrant competition because wages for these jobs are already low and immigrants are heavily concentrated in less-skilled and lower-paying jobs. In this paper I will try to explain some of the ways immigration impacts natives and the economy as a whole.

Five Reasons Immigration Can Impact Wages

Immigrants Might Work for Less. For the most part, the research generally indicates that a few years after arrival, immigrant wages are very similar to those of natives in the same occupation with the same demographic characteristics. This may not be true in all places and at all times, but in general it seems that only newly arrived immigrants undercut native wages. This is probably true of illegal aliens as well. While immigrants as a group and illegals in particular do earn less than native-born workers, this is generally due to their much lower levels of education. In other words, immigrants are poorer than natives, but they generally earn wages commensurate with their skills, which as a group tend to be much lower than natives.

Immigrants Are Seen as Better Employees. There is certainly a lot of anecdotal evidence and some systematic evidence that immigrants are seen as better workers by some employers, especially in comparison to native-born African Americans. It is certainly not uncommon to find small business men and women who will admit that they prefer Hispanic or Asian immigrants over native-born blacks. This is especially true of Hispanic and Asian employers, who often prefer to hire from within their own communities. We would expect this preference to result in lower wages and higher unemployment for those natives who are seen as less desirable.

A study of the Harlem labor market by Newman and Lennon (1995) provides some

¹See "Estimates of the Unauthorized Immigrant Population Residing in the United States: 1990 to 2000" available at http://www.uscis.gov/graphics/shared/statistics/publications/III_Report_1211.pdf

systematic evidence that employers prefer immigrants to native-born blacks. Their study found that although immigrants were only 11 percent of the job candidates in their sample, they represented 26.4 percent of those hired. Moreover, 41 percent of the immigrants in the sample were able to find employment within one year, in contrast to only 14 percent of native-born blacks. The authors concluded that immigrants fare better in the low-wage labor market because employers see immigrants as more desirable employees than native-born African-Americans. I have also found some evidence in my work that in comparison to whites, there is an added negative effect for being black and in competition with immigrants.

The Threat of Further Immigration. While no real research has been done on this question, the threat of further immigration may also exert a significant downward pressure on wages. To see how this might work consider the following example: Workers in a meat packing plant that has seen a sudden rise in the number of immigrant workers will very quickly become aware that their employer now has another pool of labor from which he can draw. Thus, even if immigrants remain a relatively small portion of the plant's total workforce, because of our relatively open immigration policy, the potential of further immigration exists. Therefore, native-born workers curtail their demands for higher wages in response to the threat of more immigration and this in turn holds down wages beyond what might be expected simply by looking at the number of immigrants in an occupation or even the country as a whole.

Immigration Increases the Supply of Labor. By far the most important impact immigration has on the workforce is that it increases the supply of labor. Based on the March 2005 Current Population Survey, there were almost 21 million adult immigrants holding jobs in the United States.² However, they are not distributed evenly across occupations. In 2005, 30 percent of immigrants in the labor market had no high school education, and for those who entered in the preceding five years, 34 percent lacked a high school degree. In comparison, only 8 percent of natives in the work force did not have a high school education. Overall, immigrants comprise 15 percent of the total workforce. But they are 40 percent of those without high school diplomas in the work force, while accounting for 12 percent of workers with more than a high school education.

The occupational distribution of immigrants also shows their high concentration in jobs that require relatively few skills. In 2005, immigrants made up 6 percent of persons in legal services occupations (primarily lawyers and support staff), and 9 percent of individuals in managerial jobs. In contrast, they comprised 34 percent of workers doing building clearing and maintenance, and 26 percent of construction laborers. This means immigration has increased the supply of the some kinds of workers much more than others. As a result, any effect on the wages or job opportunities of natives will likely fall on natives employed in less-skilled and low-paying occupations. Given that they face much more job competition, it should not be surprising that less educated workers generally have a less favorable view of immigration. In

²Figures for 2005 are from "Immigrants at Mid-Decade: A Snapshot of American's Foreign-born Population in 2005, which can be found at www.cis.org/articles/2005/back1405.html.

contrast, more educated and affluent workers who generally have a more favorable view of immigration tend to see immigrants as only "taking jobs Americans don't want."

Workers not in Competition with Immigrants. If immigration reduces wages for less educated workers, these wages do not vanish into thin air. Employers now have more money either to pay higher wages to more educated workers or to retain as higher profits. The National Research Council, in a 1997 study entitled "The New Americans," estimated that immigration reduced the wages of workers with less than a high school degree by about 5 percent. These workers roughly correspond to the poorest 10 percent of the workforce. But this reduction caused gains for the other 90 percent of workers equal to one or two tenths of one percent of their wages. The impact on educated workers is so small because workers at the bottom end of the labor market earn such low wages that even a significant decline in their wages only generates very modest gains for everyone else.

For reasons explained in greater detail in the NRC report, the aggregate size of the wage gains for more educated workers should be larger than the aggregate losses suffered by Americans at the bottom of the labor market, thereby generating a net gain for natives overall. The NRC's findings mean that the wages of workers without a high school degree are \$13 billion lower because of immigration, while the wages of other natives are roughly \$19 billion higher, for a net gain of \$6 billion. Of course, as a share of their income the losses to less-educated natives are much larger than the gains to other workers. And as share of the total economy the gain is extremely small. The two Harvard economists who did the NRC's labor market analysis argued that the benefit to natives, relative to the nation's \$8 trillion economy at that time, is "minuscule."³ However, it should also be noted that while the effect on natives overall may be minuscule, the immigrants themselves benefit substantially by coming here.

Empirical Research

Attempts to measure the actual labor market effects of recent immigration empirically have often come to contrary and conflicting conclusions. Studies done in the 1980s and early 1990s, which compared cities with different proportions of immigrants, generally found little effect from immigration.⁴ However, these studies have been widely criticized because they are

³George Borjas and Richard Freeman's New York Times Opinion piece can be found at <http://ksghome.harvard.edu/~GBorjas/Papers/NYT121097.htm> .

⁴Altonji, Joseph G. and David Card. 1991. "The Effects of Immigration on the Labor Market Outcomes of Less-skilled Natives" in John M. Abowd and Richard B. Freeman editors, *Immigration, Trade and Labor*. Chicago: University of Chicago Press.

Borjas, George. 1984. "The Impact of Immigrants on the Earnings of the Native-Born," W.M. Briggs and M. Tienda, Editors, *Immigration: Issues and Policies*, Salt Lake City: Olympus.

Borjas, George J. 1983. "The Substitutability of Black, Hispanic and White Labor. *Economic Inquiry*, Vol. 21.

based on the assumption that the labor market effects of immigration are confined to only those cities where immigrants reside.

Impact of Immigration Is National Not Local. The interconnected nature of the nation's economy makes comparisons of this kind very difficult for several reasons. Research by University of Michigan demographer William Frey⁵ and others, indicates that native-born workers, especially those natives with few years of schooling, tend to migrate out of high-immigrant areas. The migration of natives out of high-immigrant areas spreads the labor market effects of immigration from these areas to the rest of the country. There is also evidence that as the level of immigration increases to a city, the in-migration of natives is reduced.

In addition to internal migration patterns, the huge volume of goods and services exchanged between cities across the country creates pressure toward an equalization in the price of labor. For example, newly arrived immigrants who take jobs in manufacturing in a high-immigrant city such as Los Angeles come into direct and immediate competition with natives doing the same work in a low-immigrant city like Pittsburgh. The movement of capital seeking to take advantage of any immigrant-induced change in the local price of labor should also play a role in preserving wage equilibrium between cities. Beside the response of native workers and firms, immigrants themselves tend to migrate to those cities with higher wages and lower unemployment. In short, the mobility of labor, goods, and capital as well as choices made by immigrants may diffuse the effect of immigration, making it very difficult to determine the impact of immigration by comparing cities.

The National Research Council. One way researchers have attempted to deal with the problems associated with cross-city comparisons is to estimate the increase in the supply of labor in one skill category relative to another skill category brought about by immigration in the country as a whole. The wage consequences of immigration are then calculated based on an existing body of literature that has examined the wage effects of changes in the ratio of skilled to unskilled workers. The National Research Council (NRC) relied on this method in its 1997 report entitled *The New Americans*.⁶ The report was authored by most of the top economists and demographers in the field of immigration. The NRC estimates that immigration has had a significant negative effects on the wages of high school dropouts. The NRC concluded that the wages of this group, 11 million of whom are natives, are reduced by roughly 5 percent (\$13

Butcher, Kristin F. and David Card. 1991. "Immigration and Wages: Evidence from the 1980s," *The American Economic Review* Vol 81.

⁵Frey, William H. 1993. *Race, Class and Poverty Polarization of US Metro Areas: Findings from the 1990 Census*, Ann Arbor, Mich.: Population Studies Center.

Frey, William H. 1996. "Immigration, Domestic Migration, and Demographic Balkanization in America: New Evidence for the 1990s," *Population and Development Review*. Vol. 22.

⁶Edmonston, Barry and James Smith Ed. 1997. *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*, Washington D.C.: National Academy Press.

billion a year) as a consequence of immigration. Not a small effect. Dropouts make up a large share of the working poor. Nearly one out of three native workers living in poverty lacked a high school education. The wage losses suffered by high school dropouts because of immigration are roughly equal to the combined federal expenditures on subsidized School Lunches, low-income energy assistance, and the Women Infants and Children program.

Center for Immigration Studies Research. My own research suggests that the effect of immigration may be even greater than the estimates in the NRC report.⁷ I compared differences across occupations nationally and found that the concentration of immigrants in an occupation does adversely affect the wages of natives in the same occupation. My results show that immigrants have a significant negative effect on the wages of natives employed in occupations that require relatively few years of schooling, accounting for about one-fifth of the labor force. In these occupations, a 1 percent increase in the immigrant composition reduces the wages of natives by 0.8 percent. Since these occupations are now on average 19 percent immigrant, my findings suggest that immigration may reduce the wages of workers in these occupation by more than 10 percent. It should also be added that native-born blacks and Hispanics are much more likely than whites to be employed in the adversely impacted occupations.

Other Research on Wages. Harvard professor George Borjas, who is regarded as the nation's leading immigration economist, found in a study published in 2003 by the Quarterly Journal of Economics that between 1980 and 2000, immigration reduced the average annual earnings of native-born men by an estimated \$1,700 or roughly 4 percent.⁸ Among natives without a high school education, who roughly correspond to the poorest tenth of the workforce, the estimated impact was even larger, reducing their wages by 7.4 percent. The 10 million native-born workers without a high school degree face the most competition from immigrants, as do the eight million younger natives with only a high school education and 12 million younger college graduates. The negative effect on native-born black and Hispanic workers is significantly larger than on whites because a much larger share of minorities are in direct competition with immigrants.

While most of those adversely affected are less educated workers, Borjas's research indicates that the impact of immigration is throughout the labor market. The results for more skilled workers are particularly important because few of the immigrants in this section of the economy are illegal aliens, yet the effect is the same -- lower wages for natives. This new research strongly indicates that the primary reason immigration lowers wages is not that

⁷Steven Camarota 1998. "The Wages of Immigration: The Effect on the Low-Skilled Labor Market," Washington D.C.: Center for Immigration Studies. Camarota, Steven A. 1997. "The Effect of Immigrants on the Earnings of Low-skilled Native Workers: Evidence from the June 1991 Current Population Survey," Social Science Quarterly, Vol. 78.

⁸For a technical version of Dr. Borjas research see <http://ksghome.harvard.edu/~GBorjas/Papers/QJE2003.pdf>, for a less technical version see www.cis.org/articles/2004/back504.html.

immigrants are willing to work for less, rather lower wages are simply the result of immigration increasing the supply of labor.

Impact on Employment. While most research has focused on wage effects of immigration, some work has also found an impact on employment. A 1995 study by Augustine J. Kposowa found that a 1-percent increase in the immigrant composition of a metropolitan area increased unemployment among minorities by 0.13 percent.⁹ She concludes, "Non-whites appear to lose jobs to immigrants and their earnings are depressed by immigrants." A 1997 report published by the Rand Corporation, entitled "Immigration in a Changing Economy: California's Experience," and authored by Kevin McCarthy and Georges Vernez (1997) estimated that in California between 128,200 and 194,000 people were unemployed or withdrawn from the workforce because of immigration. Almost all of these individuals either are high school dropouts or have only a high school degree. Additionally, most are either women or minorities.

Impact on Employment post-2000. More recent work done on immigration also suggests that immigration may adversely impact native employment. A report I authored for the Center for Immigration Studies early this year showed that only 9 percent of the net increase in jobs for adults (18 to 64) went to natives between 2000 and 2005, even though adult natives accounted for 61 percent of the increase in the overall size of the 16-to-64 year old population. Looking at adult natives with only a high school degree or less, the number of these less-educated natives not in the labor force, which means they are not working or looking for work, increased by 1.5 million between 2000 and 2005. At the same time, the number of adult immigrants (legal and illegal) in the labor force with only a high school degree or less grew by 1.6 million. Of perhaps greatest concern, the percentage of adult natives without a high school degree who are in the labor force fell from 59.1 to 56.3 percent between 2000 and 2005 and for natives with only a high school degree it fell from 78.2 to 75.4 percent.¹⁰ In total there are 11.6 million immigrants in the labor force with only a high school degree or less, about half are illegal aliens.

Data collected since Katrina still shows no improvement in labor force participation for either native-born dropouts or those with only a high school degree. Only unemployment among native-born dropouts has improved, but not for natives with only a high school degree. The decline in less-educated adult natives (18 to 64) in the labor market does not seem to be the result of more parents staying home with young children, increased college enrollment or early retirement. The workers themselves are not the only thing to consider, nearly half of American children (under 18) are dependent on a less-educated worker, and 71 percent of children of the native-born working poor depend on a worker with a high school degree or less. The findings of our 2005 employment study are very consistent with research on this subject. Andrew Sum and

⁹Kposowa, Augustine J. 1995. "The Impact of Immigration on Unemployment and Earnings Among Racial Minorities in the United States." *Racial and Ethnic Studies*, Vol. 18.

¹⁰The report entitled "Dropping Out: Immigrant Entry and Native Exit From the Labor Force, 2000-2005" can be found at www.cis.org/articles/2006/back206.html.

his colleagues at Northeastern University have also published several reports showing that all or almost all job growth from 2000 to 2004 went to immigrants.

A recent report by the Pew Hispanic Center found no consistent pattern with regard to native employment between states that experienced a large influx of immigrants and states that had relatively few immigrants. Two key points need to be made about this report: First, as already discussed, it is not at all clear that one can measure the impact of immigration by looking at local labor markets. Second, the report does not focus on trends among persons under age 30 or 35, who have seen the biggest decline in employment in the last 5 years. In fact, Pew only looks at workers 25 year and older. Thus many of the workers most affected are excluded by Pew, and the rest are lumped in with older workers whose employment has not declined significantly.

Benefits of Immigration

Of course, it is important to realize that wage losses suffered by the unskilled do not vanish into thin air. As already discussed, the NRC estimated that the gain resulting from the wage losses suffered by the unskilled is equal to about one or two tenths of one percent of our total economy. Thus, additional unskilled immigration can be justified on the grounds that it creates a very small net benefit for the country as a whole, though it is harmful for unskilled workers. There is some debate about the net benefit of immigration. A 2002 study published by the National Bureau of Economic Research (NBER), entitled "Technological Superiority and the Losses from Migration," found that there is no economic gain from immigration. In fact the loss to all natives totals nearly \$70 billion dollars. But it must be remembered that neither the NRC study or NBER study takes into account the benefits to immigrants.

Impact on an Aging Society

Some observers think that without large scale immigration, there will not be enough people of working age to support the economy or pay for government. It is certainly true that immigration has increased the number of workers in the United States. It is also true that immigrants tend to arrive relatively young, and that they tend to have more children than native-born Americans. Demographers, the people who study human populations, have done a good deal of research on the actual impact of immigration on the age structure. There is widespread agreement that immigration has very little impact on the aging of American society. Immigrants age just like everyone else; moreover the differences with natives are not large enough to significantly alter the nation's age structure. This simple fact can be seen clearly in the 2000 Census, which showed that the average age of an immigrants was 39, compared to 35 for natives.¹¹

Another way to think about the impact of immigration on the aging of American society is to look at the working-age population. In 2000, 66.2 percent of the population was of working-age (15 to 64), but when all post-1980 immigrants are not counted, plus all of their U.S.-born children, the working-age share would have been 65.9 percent in 2000. Immigration

¹¹These figures and ones on aging that follow can be found in a 2005 report by the Center for Immigration Studies entitled, "Immigration in an Aging Society: Workers, Birth Rates, and Social Security," which can be found at www.cis.org/articles/2005/back505.html.

also does not explain the relatively high U.S. fertility rate. In 2000, the U.S. fertility rate was 2.1 children per woman, compared to 1.4 for Europe, but if all immigrants are excluded the rate would still have been 2.0. Looking to the future, Census Bureau projections indicate that if net immigration averaged 100,000 to 200,000 annually, the working age share would be 58.7 percent in 2060, while with net immigration of roughly 900,000 to one million, it would be 59.5 percent. As the Bureau states in the 2000 publication, immigration is a "highly inefficient" means for increasing the working age share of the population in the long-run.¹² Census projections are buttressed by Social Security Administration (SAA) estimates showing that over the next 75 years, net legal immigration of 800,000 a year versus 350,000 would create a benefit equal to only 0.77 percent of the program's projected expenditures.

Of course, it must be emphasized that immigration does not make the country older. In fact, the impact is slightly positive. But, one can advocate less immigration secure in the knowledge that it will not cause the population to age more age rapidly. There is no doubt that the aging of the nation's population will create very real challenges. But the level of immigration is almost entirely irrelevant to this problem. America will simply have to look elsewhere to met these challenges.

Policy Discussion

Knowing that low-skilled natives are made poorer or their unemployment increased by immigration does not tell us what, if anything, we should do about it. The extent to which we take action to deal with the wage and employment effects of immigration depends on how concerned we are about the wages of less-skilled natives. A number of scholars have argued that the inability of low-skilled workers to find work and earn a living wage contributes significantly to such social problems as welfare dependency, family breakup, and crime. One need not accept all the arguments made in this regard to acknowledge that a significant reduction in employment opportunities for the poorest Americans is a cause for real concern.

Help Workers But Leave Immigration Policy Unchanged. If we wish to do something about the effects of immigration, there are two possible sets of policy options that could be pursued. The first set would involve leaving immigration policy in place and doing more to ameliorate the harmful effects of immigration on natives in low-skilled occupations. Since the research indicates that the negative impact from immigration falls on those employed at the bottom of the labor market, an increase in the minimum wage may be helpful in offsetting some of the wage effects of immigration, though doing so may exacerbate the unemployment effect. Most economists think that the minimum wage tends to increase unemployment. Increasing the minimum wage and keeping unskilled immigration high, may make this problem even worse.

Another program that might be helpful in assisting those harmed by immigrant competition is the Earned Income Tax Credit (EITC). There is little doubt that the Credit

¹²See page 21 of the Census Bureau's "Methodology and Assumptions for the Population Projections of the United States: 1999 to 2100." The report can be found at www.census.gov/population/www/documentation/twps0038.pdf

increases the income of low-wage workers. However, in addition to the high cost to taxpayers, the Credit may also hold down wages because it acts as a subsidy to low-wage employers. That is, employers have less incentive to increase wages because workers are now being paid in part by the federal government. Cutting low- and unskilled immigration, on the other hand, has no such down side for less-skilled workers nor is it costly to taxpayers. Moreover, the Credit only increases earnings for those with jobs, it does not address increased unemployment among the less-skilled that comes with immigration. Finally, it is not clear how much increasing the minimum wage or the EITC would be helpful in dealing with the decline in labor force participation among less educated natives discussed above.

Reducing Unskilled Legal Immigration. The second set of policy options that might be enacted to deal with this problem would involve changing immigration policy with the intent of reducing job competition for natives and immigrants already here. If we were to reduce unskilled legal immigration we might want to change the selection criteria to ensure that immigrants entering the country will not compete directly with the poorest and most vulnerable workers. At present, only about 12 percent of legal immigrants are admitted based on their skills or education. Since two-third of permanent residency visas are issued based on family relationships, reducing the flow of low-skilled legal immigrants would involve reducing the number of visas based on family relationships. This might include eliminating the preferences now in the law for the siblings and adult children (over 21) of U.S. citizens and the adult children of legal permanent residents. These changes would not only reduce low-skilled legal immigration immediately, they would also limit the chain migration of low-skilled immigrants that occurs as the spouses of those admitted in the sibling and adult child categories petition to bring in their relatives.

Reducing Unskilled Illegal Immigration. In addition to reducing the flow of low-skilled legal immigrants, a greater allocation of resources could be devoted to controlling illegal immigration, especially in the interior of the country. About one half of the immigrants working in such occupations as construction, building cleaning and maintenance, and food processing and preparation are estimated to be illegal aliens according to my own analysis and research done by the Pew Hispanic Center. A strategy of attrition through enforcement offers the best hope of reducing illegal immigration. The goal of such a policy would be to make illegals go home or self deport. The former INS estimates that 165,000 illegals go home each year, 50,000 are deported, and 25,000 die. But some 800,000 to 900,000 new illegals enter each year so there is a net growth of 400,000 to 500,000 a year.¹³ If America becomes less hospitable to illegals, many more will simply decide to go home.

The centerpiece to interior enforcement would be to enforce the law barring illegals from holding jobs by using national databases that already exist to ensure that each new hire is legally entitled to work here. In 2004, only four employers were fined for hiring illegals. The IRS must also stop accepting Social Security numbers that it knows are bogus. We also need to make a much greater effort to deny illegal aliens things like drivers licenses, bank accounts, loans,

¹³See Footnote 1.

in-state college tuition, etc. Local law enforcement can play an additional role. When an illegal is encountered in the normal course of police work, the immigration service should pick that person up and deport him. More agents and fencing are clearly needed at the border as well.

Conclusion

As discussed above, the impact of immigration on the overall economy is almost certainly very small. Its short- and long-term impact demographically on the share of the population that is of working age is also very small. It probably makes more sense for policymakers to focus on the winners and losers from immigration. The big losers are natives working in low-skilled low-wage jobs. Of course, technological change and increased trade also have reduced the labor market opportunities for low-wage workers in the United States. But immigration is different because it is a discretionary policy that can be altered. On the other hand, immigrants are the big winners, as are owners of capital and skilled workers, but their gains are tiny relative to their income.

In the end, arguments for or against immigration are as much political and moral as they are economic. The latest research indicates that we can reduce immigration secure in the knowledge that it will not harm the economy. Doing so makes sense if we are very concerned about low-wage and less-skilled workers in the United States. On the other hand, if one places a high priority on helping unskilled workers in other countries, then allowing in a large number of such workers should continue. Of course, only an infinitesimal proportion of the world's poor could ever come to this country even under the most open immigration policy one might imagine. Those who support the current high level of unskilled legal and illegal immigration should at least do so with an understanding that those American workers harmed by the policies they favor are already the poorest and most vulnerable.

